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Foreign Economic Trends and Their Implications for the United States

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ZAIRE

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KEY ECONOMIC INDICATORS
(In millions of U.S. dollars unless noted)

	1986	1987	1988	1989(d)	1988/89 Percent Change
Domestic Economy					
Population (millions)	33	34	35	36	3
GDP (1980 prices)	5,283	5,416	5,566	5,633	1.2
Govt surplus or deficit as % of GDP	-1.7	-3.2	-9.4	-1.4	85
Principal Exports:					
-Copper ('000 MT)	499	509	466	448	-4.7
-Cobalt ('000 MT)	14.1	10.2	15.3	10	-35
-Oil (million barrels)	11.7	11.5	10.8	9.7	-10
-Coffee ('000 MT)	146.0	105.0	61.0	110.0	81
Money, Credit and Prices					
Money supply	635	661	908	600	-34
Credit to public sector	415	304	630	197	-69
Credit to private sector	191	222	232	162	-30
Inflation (percent)	40	100	106	101	-5
Copper price in cents/lb	63	75	117	126	8.5
Balance of Payments					
Total exports (FOB)	1,839	1,740	2,200	2,190	- 0.5
Total imports (CIF)	1,523	1,655	1,948	2,106	8.0
Trade balance	316	85	252	84	-67.0
Current account balance	-399	-645	-691	-641	7.2
Foreign debt(year end)(a)	5,768(e)	7,100	7,294	7,555	.5
-Debt service paid(b)	344	177	180	172	37.6
-Debt service due(c)	872	942	942	989	5.0
-Debt service ratio	18.7	10.1	8.1	8.0	1.0
Foreign exchange reserves	269.0	181.0	187.0	N/A	
Exchange Rate (Z per US$)	60	113	180	382	-104
U.S.-Zaire Trade					
U.S. exports to Zaire	104.2	103.0	122.3	121.9	- 0.3
U.S. imports from Zaire	238.7	320.8	383.7	331.6	-13.6
U.S. bilateral aid	72.0	66.2	61.0	66.0	8.2
-Economic	63.6	60.9	57.0	62.0	8.8
-Military	8.4	5.3	4.0	4.0	0.0

Major U.S. exports (1988): mining and transport equipment, wheat, cotton, used clothing.
Major U.S. imports (1988): crude oil, copper, diamonds, cobalt, zinc.
a) Excludes IMF credit; b) After rescheduling; c) Before rescheduling; d) U.S. Embassy estimates except for U.S. trade, money supply, credit and aid data; e) Increase in debt outstanding in 1986 reflects primarily exchange rate changes; in SDR terms 1986 debt is only moderately higher than the 1985 debt. Change calculated prior to converting figures to U.S. dollars.

Sources: IMF, World Bank, Government of Zaire, U.S. Embassy Kinshasa, and U.S. Department of Commerce.

SUMMARY

In 1989, the Government of Zaire, with the support of the International Monetary Fund (IMF) and the World Bank, undertook a structural adjustment program. By the end of the year, the inflation rate had declined, the gap between the parallel or black market exchange rate and the official rate had been substantially reduced, and positive real interest rates had been established. Export earnings from copper, which recovered sharply from their precipitous declines in the mid-1980s, contributed to increased government revenues and the reduction of the budget deficit. Unfortunately, despite these developments, GDP growth was only 1.2 percent, and thus per capita income continued to decline.

Prospects for 1990 are mixed. Debt service payments due are very high. At the same time, copper export earnings are expected to decline, reducing the amount of foreign exchange available to the government. In order to keep the budget deficit under control, the Government of Zaire will have to exercise great discipline over spending. As of May, Zaire has not been able to conclude a follow-on agreement with the IMF and World Bank, and net resource flows from these sources are expected to decline. Zaire has suspended debt payments to Paris and London Club creditors.

Zaire's ability to move its economy from stabilization to sustained economic growth will depend on mobilizing substantial additional resources and addressing the following major constraints: a heavy and growing external debt burden, dependence on primary commodity exports which have poor price prospects, outdated and deteriorating physical infrastructure, and an inadequate public investment program. However, in spite of these difficulties, the business environment continues to benefit from earlier reforms: foreign firms may repatriate profits; prices have been decontrolled for the most part; and trade regulations have been liberalized.

ZAIRE UNDERTAKES MAJOR ECONOMIC REFORMS

During the late 1970s and early 1980s, Zaire experienced severe economic problems for the following reasons: a sharp drop in the price of copper, its principal export commodity; the need to service large foreign debts contracted to finance noneconomic investment projects; the economic disruption resulting from the "Zairianization" or expropriation program of 1974; excessive regulation of the economy; and an overvalued exchange rate, high inflation, and large budget deficits. During this period, the country's infrastructure progressively decayed. From being an exporter of agricultural products, Zaire became a net importer, as many plantations ceased to function and prices were fixed at low levels.

In September 1983, Zaire implemented an economic stabilization program to deal with this crisis. The cornerstone was a reform of foreign exchange policies. The national currency, the zaire, was significantly devalued, and an interbank market was established to determine the value of the currency on the basis of supply and demand. In addition, except for petroleum products, public utilities, and transportation, most prices were decontrolled. Steps were taken to limit government expenditures and reduce the budget deficit; the trade regime was liberalized; and progress was made as regularizing external debt service payments and reducing commercial arrears.

In 1986, export earnings fell dramatically, and there was a substantial relaxation of the adjustment effort. The solid gains from the reform program eroded, and by late 1986 Zaire was no longer in compliance with the stabilization program. In May 1987, Zaire implemented a new structural adjustment program wit the support of the IMF and the World Bank. However, though elements of the earlier structural adjustment program remained intact, excessive deficit spending prevented Zaire from meeting the program's targets and further credits from the IMF and World Bank were withheld. In 1988, foreign reserves declined, deficit spending increased, inflation mounted to over 100 percent, and the zaire depreciated rapidly.

In January 19189 the Government of Zaire began again to take the necessary measures to stabilize the economy, and in June the government agreed on a new structural adjustment program with the IMF and the World Bank. Under this program, the budget deficit and inflation declines, government revenues increased, and positive real interest rates were established. Economic growth, however, remained low (1.2 percent), and thus, per capita income continued to decline in 1989. Unfortunately, as of May 1990, Zaire had not been able to reach an agreement with the IMF and the World Bank for a follow-up program for 1990.

Exports: Zaire's dependence on primary product exports makes it vulnerable to fluctuations in world prices. Furthermore, because of operational and transport problems, Zaire has not been able to increase its volume of exports over the years. In 1989, copper accounted for 59 percent of Zaire's total exports while other mineral exports, including petroleum, diamonds, gold, cobalt, zinc, and tin, were responsible for an additional 32 percent. Earnings from coffee, Zaire's largest agricultural export, declined dramatically as a result of the collapse of the International Coffee Agreement. In the first quarter of 1990, copper production and earnings declined from year earlier levels.

Exchange Market Developments: In 1988, increased deficit spending, financed by monetary expansion, and a sharp increase in the availability of foreign exchange caused the zaire to resume its rapid depreciation and the parallel market returned as a significant economic channel. In 1988, the zaire depreciated 100 percent against the U.S. dollar and 87 percent against the Belgian franc. However, in 1989, because of the stabilization actions taken by the government, the rate of devaluation dropped to 73 percent for the year, and the difference between the official and parallel rates had narrowed to less than 10 percent. Unfortunately, by May 1990, the gap between the parallel and official rates had again widened to 22 percent, reflecting Zaire's uncertain relationship with the IMF and the World Bank and concern over future prospects for further deficit spending.

External Debt Burden: Zaire's outstanding debt is estimated to be $7.6 billion (excluding the IMF). Most of this debt is owed to bilateral government creditors while multilateral institutions account for 20 percent and commercial banks account for about 6 percent. Without debt rescheduling, Zaire would have a 50-60 percent debt-service ratio. However, reschedulings have reduced debt service payments, resulting in an actual debt-service ratio of between 12 and 19 percent. Debt forgiveness plans initiated in 1989 and 1990 by Belgium, France, Germany, and the United States have improved Zaire's debt situation somewhat. However, the budgetary impact of Zaire's mounting debt burden continued to heavy despite the debt relief. The local currency cost of external debt service payments has increased substantially with the depreciation of the Zaire. Payments of external debt service amounted to 13 percent of total government expenditures in 1989 and would have been sharply higher if all debt service had been paid in 1990.

Money, Credit, and Inflation: Zaire has often financed its large budget deficits by borrowing from the domestic banking sector, a tactic which contributed to excessive growth in the money supply and rapid inflation. The debilitating effects of these policies were addressed in January 1989. The government committed itself both to contain the budget deficit and to limit monetary financing. The strong stabilization actions taken by the government bore fruit in 1989. Domestic liquidity was reduced; positive real interest rates were restored; and inflation fell to about 1.5 percent per month.

Reform of Public Enterprises: Inefficient parastatals have contributed to Zaire's troubled economic history and have been a severe strain on the budget. In recent years, Zaire has taken limited steps to reduce the role of the public sector in the economy and increase the efficiency of parastatals. The broad objective is to make the private sector responsible for productive activities with the exception of essential public services such as utilities and other strategic activities. An agricultural divestiture program has successfully privatized some parastatals and eliminated others. An investment program designed to reduce the operating costs of Gecamines, the state-owned mineral producer, has unfortunately not been fully implemented. The transport and utilities sectors also need to be overhauled to improve operations and management.

Prospects for Sustained Growth: The government's ability to consolidate the gains from its stabilization effort and translate them into sustained economic growth over the medium term depends on its being able to address the following major constraints: (a) a heavy external debt burden, which has grown with repeated reschedulings at market interest rates; (b) dependence on the export of primary commodities -- copper, cobalt, oil, diamonds, and coffee -- whose price prospects are not encouraging; (c) outdated and deteriorating infrastructure; (d) a weak institutional environment; and (e) insufficient investment. In the final analysis, to move from stabilization to growth, Zaire must mobilize substantial externally and internally generated resources.

New Investment Code: The Investment Code adopted in April 1986 offers a number of incentives designed to restore investor confidence and mobilize foreign capital. Benefits include tax and duty exemptions depending on the location of the enterprise, number of jobs generated, type of activity, training and promotion of local staff, export orientation, and value added to local resources. Most of the benefits are available for 5 years, but individual benefits range from 1 to 10 years.

Bilateral Investment Treaty: The Bilateral Investment Treaty ratified during President Mobutu's visit to the United States in July 1989 guarantees American investors national treatment status in Zaire, unrestricted repatriation of profits, rights to employ necessary expatriate technical and managerial personnel, and binding third-party arbitration in the event of an investment expropriation dispute.

Investment Protection Insurance: Zaire is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), which offers insurance to new foreign investments against foreign exchange risk, expropriation and civil unrest. The United States Overseas Private Investment Corporation (OPIC) also offers American investors similar insurance protection.

U.S. ECONOMIC ASSISTANCE TO ZAIRE

The United States Agency for International Development (USAID) seeks to address Zaire's major development problems and to help the country create an economic environment conducive to overall growth. The goal is to promote broad-based, market-oriented economic development, with particular emphasis on agriculture, rural transportation, health and population, and the private sector.

In 1989, USAID provided $60 million in economic assistance, under PL 480 Food for Peace concessional loans and Development Fund for Africa grants. Forty percent of the aid consisted of commodity imports: food, cotton, other raw materials for agriculture-based industries, and machines and spare parts. The rest supported portfolio projects.

Implications for the United States

Export Opportunities: Zaire has a large market of 36 million people. Imports from the United States account for about 7 percent of Zaire's total imports. Many U.S. products would be competitive; however, penetrating this market requires a certain degree of experience and local contacts. Other obstacles to increased U.S. exports to Zaire include the absence of U.S. Government export financing, irregular communications and transportation, and a history of uncertain foreign exchange availability.

Despite these difficulties, a number of export opportunities exist for U.S. companies in the telecommunications; heavy machinery; agricultural equipment; processed foods; manually operated, low maintenance, agricultural and food processing machinery; machinery for water pumping and brickmaking; pharmaceuticals; used clothing; cosmetics; and four-wheel drive vehicles. A U.S. firm recently sold and installed a ground station in the regional capital of Kananga. The entire transaction was accomplished in a matter of months. In general, however, trade negotiations take longer in Zaire than in other parts of the world.

Commodity sales in Zaire can likewise be profitable. The country is a net food importer; products such as wheat, flour, frozen fish and chicken, and canned goods account for almost 30 percent of all imports. European companies are the largest suppliers of these products; however, American companies have captured much of the market for wheat, cotton, and rice with the help of the PL 480 and U.S. Department of Agriculture's export enhancement programs. Corn and poultry are likely prospects for increased U.S. market share. U.S. exporters should also consider sales of processed foods to the major private importers in Kinshasa.

For the industrial and transportation sectors in Zaire, there is a need for used equipment, which could offer producers in Zaire the opportunity to update facilities and reduce cost. Demand for U.S. mining, road-building, and forestry equipment is expected to remain strong. The state mining company, Gecamines, has a good reputation with U.S. suppliers. The MIBA diamond mines and Kilo-Moto gold mines are also good potential customers.

Major projects planned between now and 1991 include:
--A $106 million World Bank road renovation program;
--A continuing $1 billion investment program to replace and rehabilitate Gecamines' mining equipment and plant facilities (partially financed by World Bank and the African Development Bank);
--Gecamines' purchase of two satellite earth stations;
--Renovation/replacement of the N'sele earth station (financed by the African Development Bank).

Business people with specific questions on Zaire may wish to contact the U.S. Department of Commerce Desk Officer, Room HCHB 3317, Washington, DC 20230, tel: 202/377-0357 or the Commercial section at the U.S. Embassy in Kinshasa APO NY 09662-2220, TLX 21405 USEMB ZR.